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Lee, Elisha

Address of Elisha Lee at a weekly...April 27, 1923

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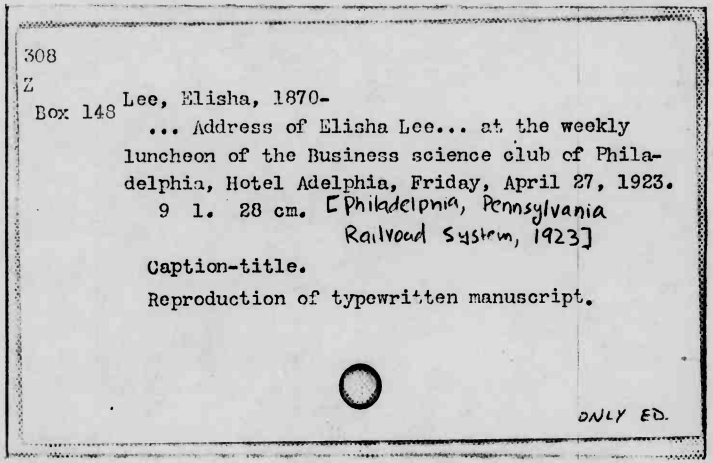
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... Address of Elisha Lee... at the weekly luncheon of the Business science club of Philadelphia, Hotel Adelphia, Friday, April 27, 1923.
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P. A. 3
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PENNSYLVANIA RAILROAD SYSTEM
GENERAL OFFICE, BROAD STREET STATION, PHILADELPHIA

EASTERN REGION
HEADQUARTERS, PHILADELPHIA
CENTRAL REGION
HEADQUARTERS, PITTSBURGH

NORTHWESTERN REGION
HEADQUARTERS, CHICAGO
SOUTHWESTERN REGION
HEADQUARTERS, ST. LOUIS

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Box 148

For the Information of the Public:

Address of Elisha Lee, Vice-President, Eastern Region, Pennsylvania Railroad System, at the weekly luncheon of the Business Science Club of Philadelphia, Hotel Adelphia, Friday, April 27, 1923.

At the outset I wish to thank you sincerely for the invitation to be with you today. A far greater and more widespread interest in transportation affairs is being displayed in all parts of the country, at present, than ever before in our history. That is a healthy sign because discussion helps to sift out the truth. Besides, it shows a general realization of the vital necessity for a constructive national policy toward transportation affairs.

I want to try to give you, as well as I can, in very brief form, a few facts as to the present situation of the railroads, and the bearing they have upon production and trade. It is, of course, necessary for me to be very general. I don't want to make my talk a statistical analysis or technical discussion, but I will have to use some figures because when you are dealing with very big things, like transportation in the United States, figures are about the only way in which essential facts can be summarized.

To begin with, I should like to get out of your minds the idea that there has been a breakdown of transportation in this country. Nothing of the kind has happened, nor should we allow ourselves to be panic-stricken into the belief that we are on the brink of it. We have had very severe railroad congestion a number of times in recent years, and are going through such a period now. We shall probably have more of it next fall. There have been, and probably will be, delays

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Publicity Bureau,
Broad Street Station,
Philadelphia, May 4, 1923

In connection with the American Railway Association's program "To Provide Adequate Transportation in 1923," in which our Railroad is co-operating, attention is directed to the attached copies of two recent brief addresses by Mr. Elisha Lee, with the thought that perhaps other officers may wish to utilize similar opportunities to present the features and objectives of this program and our Railroad's part in it.

G. B. Harley,
Special Agent.

to traffic, with resulting inconvenience, and doubtless losses. But that does not constitute a breakdown, and no such catastrophe will occur unless it is brought about by deliberate efforts from the outside, for political, class or sectional ends.

We have in this country, beyond any comparison, the best, the most highly developed, and the most scientifically managed system of railroads in the world. Every American should be proud of them. They are one of the finest products of our business genius. Their capacity is at times tremendously overtaxed, but they are far from decrepit. Indeed, the fact that they have not broken down under the repeated terrific strains put upon them is the best possible testimony to their soundness and vigorous condition.

Twenty years ago we had what were, for their day, also, the finest and best system of railroads in the world. At that time their capacity was not over-taxed, except perhaps at rare intervals and under abnormal conditions. They were, in most conspicuous degree, the nation's leaders in progress. They had a surplus capacity which in boom times gave our prosperity free rein. They rendered service of a quality which was never equaled before or since, in any country of the world, and they gave it at the lowest rates for transportation that the world has ever seen.

Today, although the quality of the railroad plant itself has not been impaired, but on the contrary has been very materially enhanced, we have no surplus capacity to fall back on. As a result, prosperity is checked in every boom, because there is an insufficiency of facilities to handle peak traffic with satisfactory promptness. Accompanying this condition is a level of rates much higher than when the practically perfect service of two decades or so ago prevailed.

What we are suffering from today in the United States is not a poor railroad plant—because its quality, as far as that goes, is of the very best—

but one of inadequate size. I will refer to a few general figures which will throw some light upon how this came about.

In 1900 we had in the United States a railroad plant representing an investment of about eleven billions of dollars. At the present time we have a twenty billion railroad plant. In a little over two decades our investment in railroads has fallen short of doubling; it has shown an increase of less than 100%. For the same interval traffic, measured in ton-miles and passenger-miles of service, has tripled; it has increased 200%. It is practically certain that this year's traffic will be considerably more than 200% above the level of 1900. Therefore, while we have been adding less than 100% to the capital invested in our railroad plant, we have been adding over 200% to the amount of work which that plant has been called upon to perform.

Moreover, since 1900, prices have been going up, and the buying power of the dollar has been going down, so that the money invested in railroads since that year has not produced as much, in additional facilities, as an equal amount spent before that time. In other words, the increase in actual facilities of the railroads has been at a lower rate, even, than the increase in the capital invested in them.

Without trying to be too exact in these matters, it certainly seems safe to say that the service which the railroads are called upon to perform, as represented by the traffic units, i. e., ton-miles and passenger-miles, has been growing materially more than twice as fast during the last twenty years, as the capacity of the plant has grown. The results have been inevitable. The reserve capacity of our railroads, which was one of the biggest assets of the country at the opening of the present century, has disappeared, and we now have a deficiency of facilities every time the volume of production and trade rises to normal or higher. That is

a condition which every man of intelligence in the country realizes urgently requires correction.

There is only one remedy--to attract more capital into the railroads. There is only one sound way to bring that about; that is to make railroading a profitable industry once more. Ability to earn profits is the only basis of credit in any business. Unless railroad credit can be placed upon a permanently high level again, through the restoration of satisfactory profits, we are faced with the alternative of a permanent stunting of national progress, through insufficient transportation facilities, or of extending our railroad plant by governmental subsidies raised through taxation. Everyone knows that the latter alternative means government ownership and political operation. A thing which I am convinced the American people do not want and are too intelligent and vigilant even to permit to come about.

I am not going to talk very much about the blame for the present unsatisfactory railroad situation. Perhaps the best thing we can say about it is that the people themselves have committed what amounts to a now widely recognized default, with respect to their own true interests, in permitting the situation to come about. We have these undisputed facts: That up to, and including the early 1900's, we had model railroading, nearly perfect service, and low rates; that since the advent of what is called "regulation with teeth," railroad managements have found it increasingly difficult to maintain these standards.

Different people have different theories to explain this state of affairs. My own view is that the true purpose of regulation has been misunderstood. It has been assumed that the primary object was to keep railroad profits as low as possible. In practice it resulted in destroying them almost altogether. A much broader view--and one which I am glad to say is notably gaining ground--is that primary purpose of regulation is to encourage transportation progress, to maintain

freedom of competition, and to protect the shipping and traveling public against unjust discriminations in rates or services. Had these views prevailed earlier, I am confident there would be a very different story to tell today.

It was the destruction of profits in the transportation industry that cut off the flow of capital. Conversely, to stimulate that flow again we must bring profits back. I think business men realize this fully, and we are counting upon their support as a powerful factor to help make it a reality.

In this connection I should like to refer to the question of the return earned upon the investment in the railroads, as a whole. Not once in the last fifteen years has it reached 6 per cent. The highest was 5.9 per cent., in 1916, and it fell as low as 8/10 of 1 per cent., in 1920. At present, Federal regulation is proceeding on the theory that a return of 5 3/4 per cent.—which is not, however, being realized—is enough to put new life into our railroads. Some of our lawmakers seem to think that no return at all is necessary.

You are all practical business men. I want you to think over and answer these two questions yourselves:

Can the needs of a rapidly growing business possibly be financed on such results? Do you wonder the railroads have been unable to get the additional capital they and the country have needed so badly?

Between now and the end of the present year the railroads will be confronted with the task of handling what will undoubtedly prove to be the heaviest traffic of their history. All signs point to demands for freight service during the summer and fall materially exceeding even those of the war-time peaks and the 1920 boom, as well as the traffic of last autumn, when we were trying to handle the whole season's coal movement in a few weeks and meet the needs of tremendously active general business at the same time.

We must beat those records to make good for the rest of 1923. I am sure

it is needless to say that the railroads, their managers and employes have a big job on their hands. There must be no failure, as failure would be a national disaster. To succeed we need the whole-hearted support of the public, the loyalty of every man in the railroad service and freedom from the ill-timed and demoralizing interjection of politics. Any man who tries to make the railroads a political football next fall, when they are in the midst of their biggest and hardest task, will be guilty of a very great disservice to his country.

To meet the situation, the railroads have solemnly pledged themselves to a program of concerted and co-operative action, in order to render the largest volume and best quality of service attainable. This was done through their chief executives at a meeting held a short time ago in New York City. The pledge, in brief, is to do everything that is humanly possible to assure that the country may receive adequate transportation during the very busy and important months that lie just ahead of us. To fulfill this pledge a specific program has been laid out, which I should like to touch upon briefly. The railroads make these promises to the public:

1. Before the fall peaks of traffic movement are reached, to wipe out the last remnants of the shopmen's strike by bringing down the cars and locomotives awaiting repairs to normal figures or lower.

2. To increase materially the average loading per freight car and the miles per day each car is moved.

3. To finish the storing of coal for railroad use, as far as practicable, by September.

4. To plan all activities to the end that the use of power and equipment for railroad construction or maintenance purposes shall be reduced to a minimum after September 1st, thus releasing the maximum of facilities for commercial traffic.

5. To establish what will practically constitute a pool of freight cars, when need arises, and to distribute the cars according to the actual needs and requirements of the various sections of the country.

Campaigns are to be inaugurated among shippers everywhere to enlist their support and co-operation. "Do your fall shipping early" is to be the slogan. That means do as much of your fall shipping in the summer as you can; get everything possible out of the way before the great crop and coal movements of autumn reach full swing.

Efforts will be made to secure the co-operation of builders, road contractors, etc., in the early movement of their materials.

Campaigns will everywhere be carried on to enlist the aid of shippers in making each freight car do more work: First, by loading more heavily, and, second, by releasing more promptly, so that each car shall carry more freight and make more miles per day. I am glad to say that our experience in the past has shown the shipping public always ready and willing to give invaluable help in these respects, and we anticipate that this splendid spirit will be more in evidence now than ever before, because the need is greater, and the general railroad requirements of the nation more widely understood.

Despite high prices of materials and labor, the railroads have pledged themselves to combined expenditure of over a billion dollars this year for new facilities. In making that announcement, the American Railway Association, speaking for the railroads in general, made this very important statement:

> "The railroads of the country are raising this enormous amount of additional capital largely through borrowed money on the abiding faith of the American people and reliance on the continuance of the policy announced in the Transportation Act, 1920, as a measure of reasonable protection to investment in railroad property."

That means that the railroads, unable to raise the needed capital by sales of stock, are further mortgaging their properties in this stupendous effort to make good, as far as is practicable for the immediate present, the accumulated shortage in facilities of many years. They are taking this risk in their belief that the ultimate fairness and justice of the public will make it possible for the railroads to carry these added burdens of debt.

On the Pennsylvania Railroad we are doing what we trust will be our full share with respect to new facilities. We have actually in sight at the present time over $75,000,000. worth of improvements and additions, including $52,000,000. for new engines and cars alone. Our total, before the end of the year, may quite likely reach or pass the $100,000,000. mark. In all other respects too, we are rapidly organizing our general campaign, with our own working forces and patrons, in order that we may do our own full part in the national adequate transportation program of 1923.

We are in the midst of the most intense business activity the country has ever seen. There is no sign of slackening in sight, and the best authorities seem agreed that the peak has not yet been reached. The impact of the greatest strain is coming on the railroads. The overwhelmingly important need is for service. The country can well afford to forget the question of rates entirely for the present, and let every activity and resource be centered on the one essential job of moving the traffic.

I have referred briefly to politics. I do not wish to discuss that question in detail, but it seems proper to say that one of the greatest dangers now in sight, to threaten the success of our adequate transportation program, lies in false promises of cheaper transportation intended to win the farm vote of the country. It is true that not only farmers, but all the people, are entitled to the cheapest transportation that can be successfully furnished. Yes, but let us be sure

we know what we mean when we talk about cheapness. It is far less a question of rates than of service. The cheapest transportation is that which does its job well, and the dearest that which fails.

We all should like to see lower rates and fares when that is practicable. I will keep away from prophecy, and merely say it is not practicable now. Few things could bring more widespread injury to the country at the present time than a premature and arbitrary reduction of rates, which would weaken the railroads at the very time when their need for strength will surely be the greatest.

I should like to close by suggesting that business men will serve the true interests of the nation best by lending their support to some such platform as this:

1. Let railroad rates and railroad laws alone for the present. Give the railroads a chance to get on their feet financially before tightening upon their earnings. Give the Transportation Act of 1920 a more adequate test before deciding what revisions, if any, it requires.

2. Get solidly back of the railroads in carrying out their adequate transportation program of 1923, because the country's prosperity depends upon its success.

3. Give every possible encouragement to the loyal and earnest working forces of the railroads so that they may co-operate in the best and most enthusiastic spirit with the management.

If we have the public and the shippers with us wholeheartedly in these respects I have no fear whatever that our railroads, their managers and employes will fail the public in this time of critical need.

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